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MassPike
1995 Annual Report

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MassPike
1995 Annual Report

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[The Massachusetts Turnpike is] "... one of the handsomest and best-maintained highways in the country. The 135-mile turnpike has an outstanding safety record, its tolls have remained well below the rate of inflation, it gets no tax money and authority bond ratings are top-notch."

Thomas C. Palmer, Jr.
The Boston Sunday Globe
April 2, 1995

MassPike

The Massachusetts Turnpike Authority was established in 1952 by the Massachusetts Legislature and charged with the construction, operation and maintenance of the Massachusetts Turnpike, a 135-mile toll highway running from the western border of Massachusetts to the city of Boston. In 1958 the Legislature authorized the Authority to construct the Callahan Tunnel and to operate and maintain the Sumner and Callahan Tunnels, one-mile harbor crossings connecting Boston with Logan International Airport and the north shore. In 1995 the Legislature expanded MassPike's role by authorizing it to operate and maintain the new Ted Williams Tunnel. All funds for the maintenance, capital improvement, operation and policing of these facilities are derived solely from tolls and other revenues generated by MassPike facilities. The Authority receives no state or federal tax dollars. It is entirely self-supporting, primarily through the collection of tolls.

1995—A Year of Achievement

This past year was one of significant achievement at MassPike. As we reached the midpoint of this decade, MassPike's steady and forward-looking leadership made a tangible difference for the motorists using the turnpike and the tunnels and for the Commonwealth. In 1995 our five-year turnpike reconstruction, improvement and modernization program was ahead of schedule and on budget, our promise to bring electronic toll collection to MassPike became a reality and our unique management strengths were recognized as we undertook the expanded role of operator of the new Ted Williams Tunnel. These milestones didn't happen overnight—they came as a result of years of hard work, research and planning.

Among the many accomplishments achieved at MassPike in 1995, we've chosen to focus this annual report on three main areas: rebuilding MassPike, implementing electronic toll collection and assuming the role of operator for the new Ted Williams Tunnel.

In the late 1980s, we took a long hard look at the roadway, bridges and tunnels of MassPike's network. What we saw became the basis for historic reconstruction programs at the turnpike and the tunnels aimed squarely at reversing the steady decay of our aging infrastructure. We believed then—as we do now—that a safe, reliable and efficient transportation system is an essential element of a thriving economy. The reconstruction programs at the turnpike and the tunnels not only fulfill our mandate to operate and maintain a safe and efficient transportation network, they helped to fuel an economic turnaround for Massachusetts.

In 1988 we pledged that we would accommodate the demands of increasing traffic without roadway expansion. To keep our word, while responding to the growing needs of Massachusetts commuters, businesses and travelers, we placed traffic management at the top of our list of priorities. We launched a search for promising new technologies that could help fulfill our goals. What we found was electronic toll collection

Chairman
Allan R. McKinnon

(ETC), the first component of a group of innovative "smart highway" technologies. For motorists, ETC will mean more convenience and less time sitting in traffic. For MassPike, it will mean streamlined operations built on the backbone of a fiber-optic communications system that MassPike planners had the foresight to install in 1990. For all of us, electronic toll collection is the first step onto the smart highways of the future.

When we were asked by the Governor and the Legislature to operate the new Ted Williams Tunnel, MassPike was ready—we had the knowledge, information and resources to operate this state-of-the-art facility. MassPike brought a history of excellence in roadway and tunnel operations and the strong credentials in fiscal management that this major new facility requires.

Our success in 1995 was not only about progress, however. It was also about people. It was about the essential and often uncredited role played by the men and women who work for public agencies such as MassPike. I am proud that we have built a strong, capable and diverse workforce at MassPike. This annual report is dedicated to the employees of the Massachusetts Turnpike Authority, our most important asset. Because of their hard work and integrity, they have our unqualified respect and full support.

As MassPike moves forward, it is guided by the vision of a modern and efficient transportation network as the foundation of a bright economic future for the Commonwealth. An increasingly mobile society demands that public agencies such as MassPike develop appropriate solutions and demonstrate strong leadership. At MassPike we stand ready to meet the challenges of an expanded role in the management and operation of the state's vital transportation network.

Allan R. McKinnon
Chairman

Three years ago MassPike embarked on an ambitious five-year, $500 million program of turnpike reconstruction, improvement and modernization. In 1995 MassPike surpassed an important milestone—the halfway point of this historic rebuilding program. Essential safety projects are being completed ahead of schedule and on budget and the private-sector investment capital that has made this program a reality has bolstered the Massachusetts economy by millions of dollars.

When completed in 1997, at least 92 bridges will be reconstructed and 66 miles of roadway repaved. Several turnpike interchanges will be improved to enhance operational efficiency. Worcester and the Blackstone Valley will benefit from the construction of a new interchange at Route 146. Innovative traffic management strategies—such as electronic toll collection—will be implemented along portions of the turnpike and at the Sumner Tunnel. Environmental protection measures will ensure the conservation of precious natural resources. And, all MassPike motorists will benefit from a safer, faster and better drive.

MassPike's chief mandate is to operate the turnpike safely, efficiently and in an environmentally sensitive manner. That responsibility has never been more evident than in the five-year capital investment program. The need for this program was evidenced once again in September 1995 when a massive rock slide sent tons of rock onto a MassPike entrance ramp in Auburn (see photo right). Rock ledges are beautiful features of the turnpike but they also can be dangerous and unpredictable because the forces of nature can cause the rock formations to become unstable. MassPike's five-year program includes the excavation of rock faces further back from the edge of the roadway to provide a greater measure of protection from falling rock. MassPike staff responded quickly to the Auburn rock slide and worked around-the-clock to remove 20,000 tons of rock so that the ramp could be safely reopened to traffic.

We view our commitment to a strong state economy as a vital component of MassPike's mis-

Construction crews repaired or rebuilt a total of 29 bridges along the Massachusetts Turnpike in 1995.

sion. Under the five-year program, we have made good on that commitment. During the past three years, 93 percent of all project contracts were awarded to Massachusetts companies, and in 1995 we improved that record—96 percent of all contracts went to Massachusetts companies. MassPike's five-year program means more dollars for Massachusetts businesses and more jobs for Massachusetts workers.

1995 Projects

During 1995 MassPike awarded 48 contracts for construction, engineering and other tasks under the five-year reconstruction, improvement and modernization program. The table on the following pages lists these individual projects as well as those begun in an earlier year and completed in 1995. The projects listed total more than $150 million and represent real progress on this vital program of rebuilding MassPike.

Five-Year Program—1995 Projects

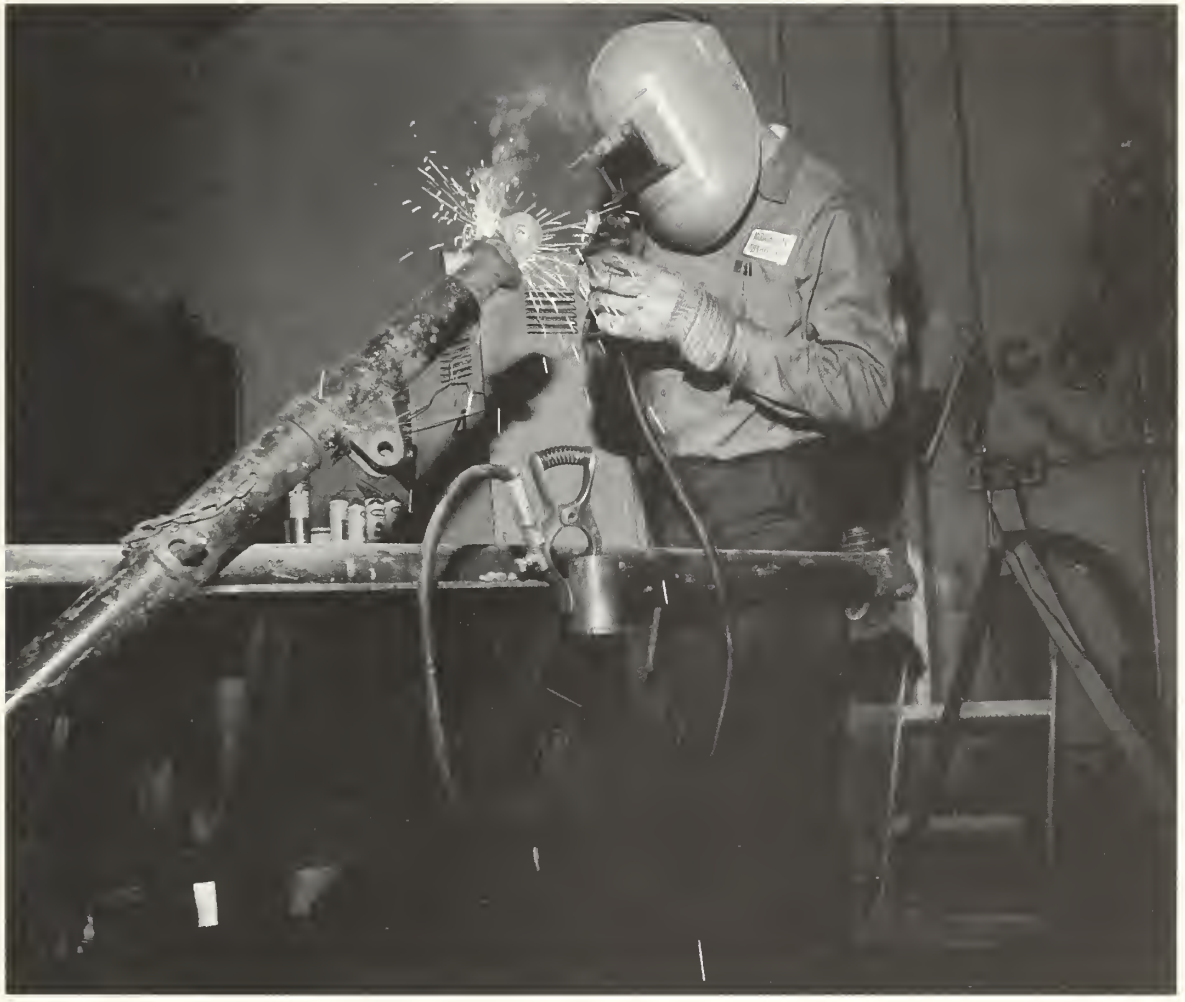
Project/Location	MA Firm	Completion	Amount
Bridge Reconstruction			
West Road/Montgomery Road, Westfield	Yes	1995	$ 2,254,435
Gratten Street/Granby Road, Chicopee	Yes	1995	1,243,573
Springfield Connector, Chicopee	Yes	1995	1,294,051
Fuller Road/North Street, Ludlow	Yes	1995	2,798,110
Chapin Street/East Street/Miller Street, Ludlow	Yes	1995	4,314,382
Three Rivers Road, Wilbraham	Yes	1995	1,188,904
Baptist Hill Road, Palmer	Yes	1995	2,359,119
Park Hill Road, Millbury	Yes	1995	1,247,473
North Street/Old Westborough Road, Grafton	Yes	1995	1,802,194
North Street/Upton Road, Upton	Yes	1995	1,715,815
Substructure Concrete Repair, Grafton & Hopkinton	Yes	1995	272,925
Oak Street/Worcester Street/Interchange 12, Framingham	Yes	1995	4,194,200
Bryn Mawr Avenue, Auburn	Yes	1995	998,985
Route 67, Palmer; Interchange 10/Southbridge Street/ Route 20, Auburn; & Route 9, Framingham	Yes	1995	598,450
Riverdale Street, West Springfield & Montgomery Street, Chicopee	No	1995	114,860
Park Road, Weston	Yes	1995	2,366,237
Woodland Road/Auburn Street, Newton	Yes	1995	1,767,550
Center Street/Interchange 17/Washington Street, Newton	Yes	1995	5,077,498
Interchange 13, Framingham	Yes	1995	6,757,982
Viaduct & Substructure Repairs, Boston	Yes	1996	3,394,750
Bridge Cleaning & Painting, Brookline & Boston	No	1996	4,940,000
Bridge Cleaning & Painting, Westborough & Southborough	Yes	1995	585,300
Bridge Cleaning & Painting, Auburn	Yes	1995	2,397,000
Substructure Concrete Repairs, Boston Extension	Yes	1995	2,668,209

Project/Location	MA Firm	Completion	Amount
Roadway Pavement Repair & Resurfacing			
Framingham to Weston; Interchange 11, Millbury/Worcester; & Interchange 12, Framingham	Yes	1996	$ 11,598,468
Interchange 6, Chicopee	Yes	1996	1,797,384
Interchange 8 & Thorndike Street, Palmer	Yes	1995	463,622
Rock Excavations			
Rock Excavation, Millbury	Yes	1996	1,578,123
Rock Excavation, Grafton	Yes	1995	726,864
Rock Excavation, Sturbridge & Grafton	Yes	1996	1,900,840
Emergency Rock Excavation, Auburn	Yes	1996	*650,000
Environmental Protection			
Landscape Restoration, Ludlow	Yes	1997	321,805
Pumping Station/Sewerage Line Construction, Natick/Weston	Yes	1995	287,315
Water Line Extension, Warren	Yes	1995	321,210
Water Line Extension, Southbridge & Charlton	Yes	1995	4,709,629
Sewerage System Improvements, Russell Service Area	Yes	1996	2,666,378
Environmental Remediation, Warren Maintenance Facility	Yes	1995	320,505
Noise Barrier Construction, Natick	Yes	1995	698,000
Noise Barrier Construction, Newton	Yes	1996	1,593,064
Communications Technology			
Communications Towers Renovation/Replacement, Blandford, Southboro, Weston & Newton	Yes	1996	989,990
Fiber Optic Communications Wide Area Network Installation	Yes	1996	6,125,389
Toll Collection System Upgrade & Related Services	**No	1997	11,800,000

* Estimated contract amount
** Multidisciplinary team including four Massachusetts companies

MassPike has maintained a strong commitment to improving the quality of life in neighborhoods impacted by its facilities. In 1995, as part of a pilot program, MassPike constructed noise barriers along sections of the turnpike corridor severely affected by highway noise. At left MassPike workers complete landscaping of the Natick noise barrier.

Project/Location	MA Firm	Completion	Amount
Safety			
Highway Sign Replacement, Westfield & Chicopee	Yes	1996	$ 1,989,860
Highway Sign Replacement, Sturbridge to Weston	Yes	1996	1,737,095
Highway Sign Replacement, Weston to Boston	Yes	1996	965,832
Anti-Missle Fence Installation, Framingham	Yes	1996	105,840
Safety Improvement Projects, Boston & Newton	Yes	1996	1,890,059
Fence Installations, Interchanges 14 & 15, Weston	Yes	1995	280,061
Fence Installations, Sturbridge, Charlton, Oxford & Auburn	Yes	1996	1,665,001
Emergency Breakdown Lane Construction, Boston Extension	Yes	1995	1,777,350
Prudential Tunnel Safety Improvements & Lighting System Rehabilitation, Boston Extension	Yes	1996	14,936,192
Operations, Maintenance & Service			
Toll Plaza Roof & Canopy Repairs, Systemwide	Yes	1996	1,762,500
Standby Generator Replacements, Systemwide	Yes	1996	375,000
Electrical Repairs, Framingham to Boston	Yes	1996	405,550
Electrical Repairs, West Stockbridge to Framingham	Yes	1995	254,808
Toll Plaza Heating System Renovation, Boston	Yes	1995	450,690
Pumping Station Rehabilitation, Boston	Yes	1996	513,805
Building Demolition, Framingham	Yes	1995	67,800
Beacon Park Rehabilitation Project, Boston	Yes	1997	4,778,124
Beacon Park Boiler Replacement, Boston	Yes	1995	1,113,800
Utility Building Renovations, Various Interchanges	Yes	1995	5,998,083
Retaining Wall Rehabilitation, Boston	Yes	1995	1,073,887
Storage Buildings Construction, Weston Maintenance Facility	Yes	1995	139,000
Interchange Lighting Systems Rehabilitation, Westfield to Palmer	Yes	1996	5,944,360
Visitor Information Center Installation, Lee	Yes	1996	418,386
Visitor Information Center Installation, Natick	Yes	1996	447,000



A MassPike welder repairs equipment at the Weston Maintenance Depot. MassPike's Maintenance Division is highly regarded as a well-trained, efficient and motivated workforce.

MassPike's use of state-of-the-art fuel leak detection equipment at its facilities ensures environmental protection at service areas and maintenance facilities. MassPike has devoted substantial resources toward environmental cleanup and protection.

When the Ted Williams Tunnel opened to commercial traffic in December 1995, a state-of-the-art electronic toll collection (ETC) system enabled participating vehicles to pass through the toll lanes without stopping. The Ted Williams Tunnel is the first toll facility in New England to be equipped with this motorist-friendly system. By the end of 1996, ETC systems will improve the ride in the Sumner Tunnel and along the turnpike's Boston Extension. By 2000 the entire turnpike—from Boston Harbor to the New York border—will be equipped with an integrated ETC system. ETC is the first of a range of innovative technologies—collectively called intelligent transportation systems (ITS)—that promises to reduce traffic congestion and air pollution and increase transportation efficiency and safety.

ETC offers a high level of convenience allowing motorists to drive through toll lanes without stopping and without searching for "exact change." For the operators of commercial vehicles, ETC will save time and streamline operations. Less traffic congestion at toll plazas is a major advantage of ETC for all drivers. As cars and trucks move through toll lanes more quickly, traffic backups are reduced and energy efficiency is increased as millions of gallons of fuel is not wasted at congested toll plazas. Highway safety will be enhanced as traffic congestion at toll booths is reduced.

MassPass

MassPass, the new program for users of MassPike's electronic tolling, will allow motorists to establish toll accounts. MassPass users will receive an electronically coded transponder, a little larger than a credit card and velcro-mounted on the windshield behind the rearview mirror. Soon the convenience of MassPass will speed motorists through toll lanes at the Sumner Tunnel and along the turnpike as well as through the Ted Williams Tunnel. MassPike's marketing studies showed that 80 percent of motorists surveyed from Boston to Lee expressed a high level of interest in using electronic toll collection for their MassPike trips.

A MassPike engineer works on an in-house design project included in the five-year reconstruction, improvement and modernization program.

Counting Tolls Electronically

In October 1995 MassPike selected a multi-disciplinary team headed by MFS Network Technologies, Inc. of Omaha, Nebraska, to design and install an electronic toll collection system at the harbor tunnels and along the turnpike. The $11.8 million contract will be largely implemented by Massachusetts companies.

MassPike's electronic toll collection system, known as MassPass, works by electronically identifying and classifying vehicles as they move through toll lanes and deducting tolls from user accounts. Video cameras automatically identify violators who can then be fined by mail. Sophisticated accounting applications, developed as part of this ETC system, will enable MassPike to enhance operating efficiency while providing improved accountability and auditing capabilities. In addition to benefitting toll collecting and accounting operations, MassPike's new electronic toll collection system will enable operators in the future to monitor and manage traffic with greater accuracy.

ETC technology has been made possible through the integration of several technology-based systems that provide highly effective vehicle-to-roadside communications. Automatic vehicle identification (AVI) is at the heart of MassPike's new system. Based on proven radio frequency identification technology, AVI's high degree of accuracy can be counted on regardless of traffic conditions.

ETC is just the beginning. An intelligent highway system includes services already available, such as real-time travel advisories and best-route traffic information, and new initiatives. For example, electronic data provided by ETC systems can enable traffic controllers to monitor traffic flows, eliminate traffic backups and provide weather and road condition information. Reduced highway congestion—and faster commutes—will be the result. Traffic delays cost us all dearly. According to the General Accounting Office, the United States wastes an estimated $100 billion annually from time lost in traffic jams—money that could be well spent on growing our economy.

MassPike's investment in rebuilding the Sumner and Callahan Tunnels has eliminated serious safety hazards and enabled these facilities to handle demanding traffic volumes.

As 1995 began the Central Artery/Tunnel project was fast approaching completion of an important first milestone—the opening of the new third harbor tunnel to commercial traffic. But before the new tunnel could open, some fundamental questions needed to be addressed. Chief among them was how the state would operate, maintain and finance the new tunnel.

The questions were answered by the Legislature and the Governor when they enacted into law the Third Harbor Tunnel Governance Bill designating MassPike as operator of the new facility. Years of intense, good faith negotiations between MassPike and the Central Artery/Tunnel team led to the development of an important consensus on the Authority's role in the project and the organizational framework for the state's new transportation facilities. MassPike's unique attributes—its strong standing in the bond market, its experience operating tunnel facilities, the proximity of the turnpike and tunnels to the components of the Central Artery/Tunnel project and its ability to generate substantial non-tax revenues—all worked together to make MassPike's selection enormously sensible. In December 1995 the third harbor tunnel was officially named the Ted Williams Tunnel, in recognition of Boston's great baseball player.

MassPike was up to the challenge of operating the new Ted Williams Tunnel. Joining with state highway officials to prepare the tunnel for opening on December 15, 1995, MassPike staff worked 24 hours a day, seven days a week, to help ensure that all would be ready. A complex, first-of-its-kind transfer agreement was negotiated, written and implemented in record time. Careful safety protocols were put into place to assure a smooth opening. The hard work was worth the effort when federal, state and local officials cut the ribbon to open the Ted Williams Tunnel and a new chapter in the Commonwealth's transportation history began.

Operation of the new facility is an ongoing challenge to MassPike—and a tribute to its staff—because commercial traffic in the tunnel must flow smoothly while construction activities are under-

way. The Ted Williams Tunnel will not be opened to all traffic until connections are completed with the turnpike and with Route 1A in 2001. Until then MassPike must manage tunnel traffic and project construction needs simultaneously.

The opening of the Ted Williams Tunnel offered several important lessons. Primary among them was that interagency cooperation is essential to the success of a project of this size and complexity. The system of divided ownership and operational responsibilities among transportation agencies that was the legacy of the 1950s could no longer work to maintain an efficient and fiscally sensible urban transportation system. The qualities that MassPike brings to the table—its financial strength, its operational expertise, its reputation for integrity and competence, its stability as a public transportation agency—are precisely the attributes needed to help make the Central Artery/ Tunnel project a success.

Sumner and Callahan Tunnels

The early opening of the Ted Williams Tunnel was the most exciting event of 1995, but the completion of Phase I of MassPike's repair and rehabilitation program at the Sumner and Callahan Tunnels marked an important milestone at the Boston Harbor crossings.

MassPike's tunnels program represents one element of a dual strategy to meet the Commonwealth's transportation needs. The opening of the Ted Williams Tunnel would by itself be an inadequate response to Greater Boston's mobility needs. The rebuilding of the Sumner and Callahan Tunnels is an essential element of a coordinated, forward-looking transportation program.

Phase I included $47 million of essential repairs such as the reconstruction of the Callahan ceiling and extensive work at the Sumner. It has increased safety, extended the life of these facilities and reduced operating costs. Major design work for Phase II construction, estimated at nearly $50 million, also was completed in 1995.

Toll Road Benefits—Know the Facts

MassPike receives no state or federal tax dollars. It is entirely self-supporting, primarily through the collection of tolls. At MassPike we are often asked why we continue to need tolls on the turnpike and the tunnels. While no one likes to pay tolls, we all know that there are no "free" roads. Repair, maintenance and operations for all transportation facilities are paid for either by our gas tax dollars or by user fees. Many people believe that tolls—or user fees—are the fairest way to pay for those resources we need. The simple fact that the user and only the user pays makes good sense. Here are some additional facts.

Fact 1

Do you know where your toll money goes? Toll costs effectively link user fees directly to specific roadways, tunnels or bridges. There are no "free" roads—motorists must pay for roads whether by toll, gas tax or other funding mechanism. When you travel a toll road, bridge or tunnel, your tolls support the construction, repair, operation, policing and maintenance of that particular facility. And you have the benefit of knowing where your toll money is going.

Fact 2

Toll roads save lives. Toll facilities are among the safest roads in the United States, with fatalities averaging about one third the national rate for all roads. Comparisons with other state roads and other similar toll highways have consistently shown that MassPike's safety record is among the best in the country.

Fact 3

Toll roads offer increased police support and other safety features. Your tolls support a strong state police presence and regular safety patrols on toll facilities, increasing your ability to get help quickly during a travel emergency. For nearly 28 years, MassPike's emergency service patrol (ESP) has responded to stranded motorists 24 hours a day, seven days a week. In 1995 the ESP handled

Through MassPike's innovative landscape management program, motorists can enjoy the changing beauty of rural, suburban and urban landscapes from West Stockbridge to Boston. At right MassPike landscapers work to beautify a busy Boston intersection.

25,537 roadside motor vehicle problems that ranged from dead batteries to running out of gas. The ESP as well as Troop E of the State Police are totally funded by MassPike through tolls.

Fact 4

Toll roads, tunnels and bridges are better maintained. Toll authorities pride themselves on outstanding safety and maintenance records. When the roads you drive are in good repair, clear of debris, free of snow and ice, you experience fewer vehicle repairs and lower maintenance costs, and you can count on fewer accidents and injuries due to poor road conditions. MassPike's five-year program is ensuring that the turnpike will remain in top condition well into the next century.

In a March 1995 report conducted by the Massachusetts Highway Department, MassPike's snow and ice removal costs ranked lowest in comparison to other state transportation agencies and regional toll authorities. Yet, the Massachusetts turnpike is the route of choice for motorists in winter storms. They know that MassPike's roadway and bridges will be cleared of ice and snow quickly and as frequently as conditions warrant.

Fact 5

Toll roads, tunnels and bridges are the "pioneers" of highway technology. Tollways are the roads of the future—being driven today. Electronic toll collection (ETC) and electronic toll and traffic management (ETTM) systems are realities. These innovative systems are the first "intelligent transportation" technologies to realize practical application on today's roads, tunnels and bridges.

Fact 6

Federal and state gas taxes alone are not sufficient to build and maintain our nation's highway infrastructure. U.S. roads and bridges stand in disrepair. Motorists spend wasted hours idling their cars on congested highways. There are limited funds available for infrastructure maintenance and no more space or enough money to "build our

way out" of this dilemma.

Toll roads are an integral part of the solution. Increasingly popular public-private, wholly private and other innovative financing options are quickly bringing toll roads to areas in desperate need of new and improved infrastructure solutions. New toll roads have opened recently in California and Virginia. Because toll roads, tunnels and bridges are self-supporting, highway tax money can be used for other road projects.

Fact 7

Toll projects face very stringent market tests before they are built. This helps ensure that only economically and financially sound projects that best serve the needs of motorists are constructed.

Fact 8

Toll facilities offer choices. Motorists generally have the choice of using a toll facility for decreased trip time and increased safety or traveling an alternative non-toll route. This results in less total congestion for all drivers.

Fact 9

Toll agencies provide jobs, improve mobility and foster business and trade, adding to economic productivity. High quality transportation facilities are frequently cited as the linchpin of economic growth and prosperity. When Genzyme Corporation located its headquarters on MassPike land in Allston, ready access to the turnpike was a key deciding factor.

A final word—

We don't expect the toll-paying public to jump for joy at the idea of paying tolls. As we said at the beginning, no one likes to pay tolls. But in an era of limited tax dollars and growing need to offer citizens and businesses improved, safer transportation services, toll-financed roads, tunnels and bridges stand as a fair, proven and prudent way to get the job done.

While most people sleep, construction crews are hard at work on the Sumner and Callahan Tunnels repair and rehabilitation program. To keep traffic moving smoothly during the day, work must be accomplished late at night, when one of the two tunnels can be closed.

MassPike Board of Directors

The MassPike Board of Directors—Allan R. McKinnon (right), appointed Chairman of the Authority in July 1987; Ann M. Hershfang (left), appointed Board Member in July 1988 and assumed position of Vice Chairwoman in 1989; and Thomas J. Curley, Jr. (center), appointed Board Member in July 1991.

One important test of MassPike's management of the turnpike and tunnels systems is the confidence that the bond market continues to express in MassPike initiatives. The expression of that confidence comes in the bond ratings issued by Standard & Poor's, Moody's and Fitch rating services.

MassPike's strong reputation in the bond market means that we have access to private-sector investment capital at highly favorable rates. This means lower costs for MassPike and the motorists who use our facilities. It also enables a public agency to use private-sector capital to rebuild critical public transportation assets.

MassPike anticipates retiring its 1962 bond issue in early 1996. That action will leave the Authority with two outstanding revenue bond issues: the 1993 turnpike and 1996 tunnels bond issues. The 1993 turnpike bonds are rated A+ by Standard & Poor's and A1 by Moody's. The 1996 tunnels notes were rated SP–1/A+ by Standard & Poor's, MIG–1/A1 by Moody's and F–1/A+ by Fitch.

Massachusetts Turnpike—Statements of Condition
December 31, 1995 and 1994

	1995	1994
Assets		
Cash (Note 4)	$ 11,190,941	$ 10,182,069
Investments (Note 4)	220,976,243	300,855,472
Accounts Receivable	4,194,755	3,970,785
Inventories	1,294,592	1,149,989
Deposits, Prepaid and Deferred Expenses	806,374	839,614
Accrued Interest on Investments	717,598	1,900,743
Due from Sumner–Callahan–Williams Tunnels, Net	513,627	—
Escrow Funds	4,730,974	428,644
Deferred Compensation Plan (Note 6)	12,683,432	9,961,382
Cost of Massachusetts Turnpike to Date	809,128,242	743,496,951
Total Assets	$ 1,066,236,778	$ 1,072,785,649
Liabilities and Fund Balances		
Liabilities		
Accounts Payable	$ 10,018,061	$ 5,171,403
Accrued Expenses and Payroll	8,533,221	7,759,841
Deposits and Deferred Income	6,315,214	1,593,549
Deferred Compensation Plan (Note 6)	12,683,432	9,961,382
Due to Sumner–Callahan–Williams Tunnels, Net	—	99,569
Medical Benefits Claims Reserve	—	265,530
Contract Retainage	4,609,278	2,178,924
Revenue Bonds Outstanding (Note 5)	383,238,000	391,333,000
Total Liabilities	425,397,206	418,363,198
Fund Balances		
Fund Balances Required to be Carried Forward for Operations per Trust Agreements	142,132,572	163,810,451
Revenue Bonds Retired (Note 5)	498,707,000	490,612,000
Total Fund Balances	640,839,572	654,422,451
Total Liabilities and Fund Balances	$ 1,066,236,778	$ 1,072,785,649

See accompanying notes.

Massachusetts Turnpike—Statements of Revenues, Expenses, Required Distribution and Change in Revenue Fund
For the Years Ended December 31, 1995 and 1994

	1995	1994
Revenues (Note 3)		
Net Toll Revenue	$ 136,460,016	$ 133,280,464
Rental Income	6,949,372	4,151,804
Restaurant and Concession	2,670,573	2,716,869
Service Station	2,792,767	2,729,158
Other Income		
Restricted Funds and Accounts	8,299,721	6,369,676
Revenue Funds	1,090,907	913,775
Total Revenues	158,263,356	150,161,746
Expenses (Note 3)		
Operations and Public Protection	54,873,128	54,771,130
Administrative	14,180,288	11,421,821
Retirement	5,346,979	4,133,614
Total Expenses	74,400,395	70,326,565
Net Revenues Before Required Distribution	83,862,961	79,835,181
Restricted Revenues	(8,299,721)	(6,369,676)
Net Revenues Available for Distribution	75,563,240	73,465,505
Required Distribution (Transfers to Restricted Funds) (Note 3)		
Sinking Fund		
Bond Interest	866,681	1,823,185
Bond Redemption	21,552,704	21,210,751
Repair and Reconstruction Fund Mandated per Trust Agreements	51,911,000	48,260,000
Total Distribution	74,330,385	71,293,936
Net Change in Revenue Fund	$ 1,232,855	$ 2,171,569

See accompanying notes.

Massachusetts Turnpike—Statement of Changes in Fund Balances For the Year Ended December 31, 1995

	Revenue Fund	Debt Service Fund–1962 Series A	Debt Service Fund–1993 Series A	Repair and Reconstruction Fund	1993 General Fund
Net Revenues Before Required Distribution	$ 75,563,240	$ 448,065	$ 3,450,945	$ 4,349,701	$ 51,154
Required Distribution	(74,330,385)	22,419,385		51,911,000	
Transfers	—	—	(1,500,000)	—	1,500,000
Totals	1,232,855	22,867,450	1,950,945	56,260,701	1,551,154
Disbursements					
Payment of Bond Interest	—	1,167,982	18,056,028	—	—
Resurfacing, Replacement, Reconstruction and Related Costs	—	—	—	77,683,331	233,111
Bond Redemption (Note 5)	—	8,400,532	—	—	—
Totals	—	9,568,514	18,056,028	77,683,331	233,111
Net Change for Year	1,232,855	13,298,936	(16,105,083)	(21,422,630)	1,318,043
Balances					
Beginning of Year	13,310,065	8,670,790	79,411,246	62,418,350	—
End of Year	$ 14,542,920	$ 21,969,726	$ 63,306,163	$ 40,995,720	$ 1,318,043

See accompanying notes.

Massachusetts Turnpike—Statement of Changes in Fund Balances
For the Year Ended December 31, 1994

	Revenue Fund	Debt Service Fund–1962 Series A	Debt Service Fund–1993 Series A	Repair and Reconstruction Fund
Net Revenues Before Required Distribution	$ 73,465,505	$ 272,273	$ 3,978,710	$ 2,118,693
Required Distribution	(71,293,936)	23,033,936	—	48,260,000
Totals	2,171,569	23,306,209	3,978,710	50,378,693
Disbursements				
Payment of Bond Interest	—	2,401,870	18,056,026	—
Resurfacing, Replacement, Reconstruction and Related Costs	—	—	—	11,532,567
Bond Redemption (Note 5)	—	23,230,035	—	—
Totals	—	25,631,905	18,056,026	11,532,567
Net Change for Year	2,171,569	(2,325,696)	(14,077,316)	38,846,126
Balances				
Beginning of Year	11,138,496	10,996,486	93,488,562	23,572,224
End of Year	$ 13,310,065	$ 8,670,790	$ 79,411,246	$ 62,418,350

See accompanying notes.

1 General

The Massachusetts Turnpike Authority (the Authority) operates two separate and financially distinct facilities: the Massachusetts Turnpike and the Sumner–Callahan–Williams Tunnels. The acquisition, construction, and reconstruction of the Massachusetts Turnpike and related facilities are financed by revenue bonds. As of December 31, 1995, neither the faith and credit nor the taxing power of the Commonwealth of Massachusetts or any political subdivision thereof is pledged for the payment of the Authority's debt. The Authority does not receive any federal or state funding. Principal and interest payments on Massachusetts Turnpike bonds and the funds providing for the maintenance, operation, and policing of the Massachusetts Turnpike are derived solely from turnpike tolls and other revenues.

2 The Enabling Acts

By Chapter 354 of the Acts of 1952 of the Commonwealth of Massachusetts, the Massachusetts Turnpike Authority was duly created as a body politic and corporate and a public instrumentality of the Commonwealth and was authorized and empowered to construct, maintain, repair, and operate a toll express highway, known as the Massachusetts Turnpike. Chapter 598 of the Acts of 1958 authorized and empowered the Massachusetts Turnpike Authority to acquire the Sumner Tunnel from the city of Boston and to construct an additional vehicular tunnel between Boston proper and East Boston (known as the Callahan Tunnel), and to operate and maintain both facilities. The Authority is directed by a Board of three members who are appointed by the Governor of the Commonwealth of Massachusetts. The Commonwealth's accountability for the Authority does not extend beyond making these appointments.

3 Summary of Significant Accounting Policies

(a) Basis of Accounting

All accounts and records of the Authority are maintained in accordance with accounting practices consistent with the provisions of the Supplemental Trust Agreement dated January 1, 1962, the 1993 Trust Agreement dated March 1, 1993, and the First Supplemental Trust Agreement dated March 1, 1993 (the Trust Agreements), relating to the Massachusetts Turnpike. Consequently, the Authority's accounting practices differ in certain respects from generally accepted accounting principles. The monetary effects of such differences are not readily determinable. The most significant difference is that, consistent with the terms of the Trust Agreements, the Authority does not depreciate the cost of the Massachusetts Turnpike. Also, the Authority does not present a statement of cash flows. The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The accompanying statement of condition reflects combined totals of individual funds but does not eliminate interfund balances. Resources are allocated to and accounted for in the individual funds based upon the provisions of the Trust Agreements. Revenues and expenses are generally accounted for on an accrual basis, except for retiree health costs, which are accounted for on a pay-as-you-go basis, and interest on bonds, which is accounted for on a cash basis. In 1994, the Authority began the practice of accruing its obligation for compensated absences as incurred and accruing an additional amount representing a portion of its unfunded obligation for compensated absences incurred in previous years (see Note 6).

(b) Fiscal Year

The Authority's fiscal year is the calendar year.

(c) Inventories

Inventories consist primarily of sodium chloride, calcium chloride, sand, bulk gasoline, highway guardrail, and printed toll tickets. Inventories are valued at cost, determined by the first-in, first-out method.

(d) Investments

Investments are stated at amortized cost which approximates market value. The cost of securities sold is based upon the specific identification method.

(e) Cost of Massachusetts Turnpike

The cost of the Massachusetts Turnpike to date represents the accumulated expenditure of bond proceeds and related investment income for the acquisition, construction, and reconstruction of turnpike roads and facilities and related legal, bond issuance, and other amounts defined and authorized by the Trust Agreements, including the original issue discount on the bonds and certain funds set aside for payment of interest on the bonds.

(f) Revenues

All cash tolls received by the Massachusetts Turnpike are deposited with a depository bank. On a monthly basis, these monies are transferred to the Trustee and allocated among the various funds in accordance with the provisions of the Trust Agreements. All other revenues are deposited with the Trustee directly. All revenues deposited with the Trustee are continuously secured for the benefit of the Authority and bondholders by marketable securities deemed eligible as collateral.

(g) Expenses

The Trust Agreements provide that the Authority will on or before the first day of each fiscal year adopt an annual budget. The operating expense budgets totaled $74,410,000 and $70,327,000 in 1995 and 1994, respectively. Expenditures for equipment acquisitions and repairs and improvements to turnpike roads and related facilities made from the Repair and Reconstruction Funds are not capitalized.

4 Cash and Investments

Cash and investments are restricted to the specific purposes cited by the Trust Agreements including turnpike administration, operations and public protection, payment of bond principal and interest, and costs of turnpike repair, resurfacing, and reconstruction projects.

The carrying amount of the Authority's cash deposits was $11,190,941 at December 31, 1995, and $10,182,069 at December 31, 1994. The bank balance was $13,815,044 at December 31, 1995, and $13,108,078 at December 31, 1994. Reconciling items between the carrying amount and the bank balance consisted principally of outstanding checks which had not cleared at year-end and deposits in-transit. Of the bank balances at December 31, 1995 and 1994, $8,558,074 and $9,421,195, respectively, are covered by federal depository insurance or collateralized with securities held by the Authority or by its agent in the Authority's name, and bank balances uninsured and uncollateralized totaled $5,256,970 and $3,686,883, respectively.

The following summary categorizes investments held as of December 31:

	1995 Cost	*1994 Cost*
U.S. Treasury Securities	$ 62,118,764	$ 111,018,962
Money Market Accounts	39,419,893	21,794,939
RepurchaseAgreements	23,778,380	4,673,255
Direct Investments	95,659,206	163,368,316
Total Investments	$ 220,976,243	$ 300,855,472

Market value of investments approximates cost for each of the security categories listed.

U.S. Treasury Securities are held by the bond Trustees pursuant to the terms of the Trust Agreements. U.S. Treasury Securities are generally held to maturity and typically mature within two years. Money market funds are managed by Fidelity Investments and investments are made only in debt obligations issued or guaranteed as to principal and interest by the U.S. Government. Repurchase agreements are collateralized with securities held by the pledging financial institution's trust department in the Authority's name. Direct investments consist of two Investment Agreements with Qualified Financial Institutions as defined in the 1993 Trust Agreement. The Investment Agreements pay interest at a fixed rate and have initial maturity dates of December 1, 1997, and April 14, 1998. The Authority has the right to withdraw funds prior to the maturity date subject to the terms of the Investment Agreement.

The following summarizes cash and investments as of December 31, by the various funds and accounts established and restricted under the Trust Agreements:

	1995	*1994*
Revenue Fund	$ 17,297,414	$ 14,087,417
Sinking Fund		
Bond Interest Account	63,026,399	78,318,476
General Reserve Account	888,282	1,907,962
Redemption Account	20,647,231	6,064,353
Repair and Reconstruction Fund	53,281,139	65,919,940
1986 Series A Construction Fund	6,000,585	6,305,860
1993 Series A Construction Fund	71,026,134	138,433,333
Totals	$ 232,167,184	$ 311,037,541

5 Bonds Issued, Retired, and Outstanding

Revenue bonds outstanding as of December 31 are as follows:

	1995	*1994*
1993 Revenue Bonds		
Series A—Serial Bonds[1]	$ 102,200,000	$ 102,200,000
Series A–Term Bonds[2]	263,355,000	263,355,000
1962 Revenue Bonds		
Series A–4.75 percent[3]	12,571,000	18,625,000
Series A–4.15 percent[4]	5,112,000	7,153,000
Total Revenue Bonds	$ 383,238,000	$ 391,333,000

[1]Series A—Serial Bonds with interest rates ranging from 4% to 5.10%, issued $102,200,000; due January 1, 1998, through January 1, 2008.

[2]Series A—Term Bonds with interest rates ranging from 5% to 5.125%, issued $263,355,000; due in increments January 1, 2013, through January 1, 2023.

[3]Series A–4.75%, issued $100,000,000; due January 1, 2002.

[4]Series A—4.15%, issued $38,000,000; due January 1, 2002.

Revenue bonds issued, refunded, or retired by the Authority during the two years ended December 31, 1995, are as follows:

	1995	*1994*
Revenue Bonds at Beginning of Year	$ 391,333,000	$ 413,535,000
1962 Series A Revenue Bonds Retired	8,095,000	22,202,000
Revenue Bonds at End of Year	$ 383,238,000	$ 391,333,000

On January 1,1962, the Authority issued $218,000,000 in Turnpike Revenue Bonds–1962 Series A and Series B, to pay for the cost of the Boston Extension. In 1984, the Authority advance refunded the

entire $80,000,000 in 1962 Series B Revenue Bonds. The 1962 Series A Revenue Bonds are redeemable prior to maturity at the principal amount of the bonds, with interest accrued to the date fixed for redemption, plus a premium ranging from 1 percent to 6 percent ($305,532 paid in 1995 and $1,028,035 in 1994) over a prescribed period of 10 to 21 years after the redemption of the 1962 Series B Revenue Bonds and at par thereafter. The 1962 Series A Revenue Bonds are secured by a pledge of all Massachusetts Turnpike tolls and revenues, subject only to the payment of operating expenses.

On July 16, 1986, the Authority issued $40,000,000 in Turnpike Improvement Revenue Bonds–1986 Series A for turnpike improvements. The 1986 Series A Revenue Bonds were refunded in full on March 1, 1993, in connection with the issuance of the Turnpike Revenue Bonds–1993 Series A.

On March 1, 1993, the Authority issued $365,555,000 in Turnpike Revenue Bonds–1993 Series A, to refund the Turnpike Improvement Revenue Bonds–1986 Series A, as previously discussed, as well as to finance a portion of the cost of certain repairs and improvements to the Massachusetts Turnpike to be undertaken by the Authority in connection with its proposed five-year reconstruction and improvement program. The Turnpike Revenue Bonds–1993 Series A are redeemable prior to maturity as set forth below:

—The 1993 Series A Serial Bonds maturing on or before January 1, 2003, in the aggregate amount of $49,385,000, are not subject to redemption prior to maturity.

—The 1993 Series A Serial Bonds maturing after January 1, 2003, in the aggregate amount of $52,815,000, will be subject to redemption at the option of the Authority at a redemption price of 102 percent in 2003, 101 percent in 2004, and 100 percent thereafter, plus accrued interest to date of redemption.

—The 1993 Series A Term Bonds maturing January 1, 2013, and January 1, 2020, in the aggregate amount of $194,195,000, are subject to redemption at the option of the Authority on or after January 1, 2003, at the price of 100 percent of principal amount plus accrued interest to date of redemption.

—The 1993 Series A Revenue Bonds maturing January 1, 2013, January 1, 2020, and January 1, 2023, are subject to mandatory sinking fund redemption, requiring payment of 100 percent of the principal amount of the 1993 Series A Revenue Bonds called for redemption, plus interest accrued to the fixed redemption dates ranging from 2009 through 2023.

—The 1993 Series A Revenue Bonds are subordinate to the 1962 Series A Revenue Bonds. No revenues of the Authority will be available to pay the principal, interest, or redemption price of the 1993 Series A Revenue Bonds until the 1962 Series A Revenue Bonds are paid in full. Upon full payment of the 1962 Series A Revenue Bonds, all tolls and revenues of the Massachusetts Turnpike will be pledged to the 1993 Series A Revenue Bonds.

Debt service requirements on revenue bonds subsequent to December 31, 1995, are as follows:

Year Ending December 31	*Principal*	*Interest*	*Total*
1996	$ 17,683,000	$ 18,477,315	$ 36,160,315
1997	—	18,056,028	18,056,028
1998	7,400,000	17,908,028	25,308,028
1999	7,695,000	17,598,433	25,293,433
2000	8,020,000	17,260,398	25,280,398
Thereafter	342,440,000	234,479,855	576,919,855
Total	$ 383,238,000	$ 323,780,057	$ 707,018,057

The table reflects the expected repayment dates for the 1962 Series A Revenue Bonds and the 1993 Series A Revenue Bonds.

6 Employee Benefit Plans

Defined Benefit Pension Plan

By the enactment of Chapter 597 of the Acts of 1967 and acceptance thereof by the Authority, the Massachusetts Turnpike Authority Employees' Retirement System (the Retirement System) was created. The Retirement System is a funded defined benefit pension plan by which, effective July 1, 1968, substantially all employees of the Authority are entitled to retirement benefits in accordance with the provisions of the Massachusetts Contributory Retirement Law (Chapter 32 of the General Laws, Sections 1–28). The Retirement System covers the Massachusetts Turnpike and the Sumner–Callahan–Williams Tunnel employees. Approximately 70 percent of the Authority's total payroll relates to employees covered by the Retirement System.

Employees with 10 or more years of service are entitled to annual pension benefits beginning at retirement age 55, and earlier retirement is allowed upon completion of 20 years of service. The benefit is based upon compensation levels, age, and years of service. If a member dies in service, the surviving spouse, dependent children, or other beneficiaries may be entitled to receive benefits. The covered employees are required to contribute 5 percent to 10 percent (dependent upon date of hire) of their salary to the Retirement System.

Pursuant to Section 22 (7)(e), as amended, the Authority is required to pay annually to the Massachusetts Turnpike Authority Employees' Retirement System, amounts determined by the Division of Public Employees' Retirement Administration (PERA) as necessary for payment of pension benefits to retired employees of the Authority and their beneficiaries and for the expenses of said system. Under the enactment of Chapter 566 of the Acts of 1978, the Authority is required to fund and pay the Retirement System the sum of (a) the normal pension cost for the current year and (b) an amount sufficient to amortize any unfunded past service liability prior to the dissolution of the Authority.

During 1995 and 1994, the Massachusetts Turnpike paid $2,108,543 and $1,975,927 respectively, to the Retirement System for the Pension and Expense Funds. The Massachusetts Turnpike's 1995 and 1994 contributions represented approximately 90 percent of total employer contributions. In addition, approximately $3.9 million in 1995 and $3.6 million in 1994 was contributed to the Retirement System by or on behalf of Authority employees.

Information concerning the Retirement System's pension benefit obligations and historical trends is presented in the Retirement System's December 31, 1995, financial report.

Retirees Group Medical Benefits

The Authority provides certain health care benefits for its retired employees. Currenly, approximately 570 retirees or retiree spouses meet the eligibility requirements. The cost of retiree health care benefits is recognized as an expense when paid. The expense recognized in 1995 and 1994 was $1,041,215 and $1,260,000 respectively. As of January 1, 1995, the Authority's actuarial advisor estimated the present value of the cost of the unfunded retiree health benefits program to be $18,898,000 for the Massachusetts Turnpike. The Authority has adopted a funding plan to provide for the amortization of the unfunded retiree benefits.

Deferred Compensation Plan

In 1981, the Authority adopted the Massachusetts Turnpike Authority Deferred Compensation Plan (Plan) whereby an employee who elects to participate may defer the receipt of a specified amount of compensation. Such deferred compensation is payable to the participant on retirement, death, disability, or financial

hardship. The Authority maintains agreements, principally with Aetna Life Insurance and Annuity Company, for certain administrative functions of the Plan. For accounting purposes, the Plan's assets and liabilities are recorded on the books and records of the Massachusetts Turnpike at market value. As of December 31, 1995 and 1994, the value of the Plan for the Massachusetts Turnpike and Sumner–Callahan–Williams Tunnels combined was $12,683,432 and $9,961,382, respectively. Plan assets are invested principally in various Aetna funds. All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income amounts are solely the property and rights of the Authority, subject only to the claims of the Authority's bondholders and other creditors. The Authority believes that it is unlikely that it will use the assets to satisfy the claims of creditors in the future.

Compensated Absences

Certain employees of the Authority can accumulate unused vacation and sick time which can be used at a later date or paid in cash upon termination and/or retirement from the Authority. Prior to 1994, the costs of these compensated absences were recorded on a cash basis. In 1994, the Authority began the practice of accruing its obligation for compensated absences as incurred and accruing a portion of its obligation for compensated absences incurred in previous years. The accrual for compensated absences increased from $495,000 as of December 31, 1994, to $2,795,000 as of December 31, 1995. The expense affiliated with this accrual is included in administrative expense in the accompanying financial statements. The Authority estimates the cost of the unrecorded obligation for compensated absences to be approximately $5 million at December 31, 1995.

7 Leases

The Authority has commitments under operating leases for administrative office space in a state office building, other commercial office space and automatic toll collection equipment. These operating leases expire on various dates through June 2000 and are generally expected to be renewed or replaced by similar leases. Lease expense charged to the Massachusetts Turnpike in 1995 and 1994, respectively, was $941,049 and $894,064. Future minimum lease payments under the above leases are as follows:

1996	$ 805,967
1997	568,988
1998	511,560
1999	527,800
2000	242,653
Total	$ 2,656,968

The Massachusetts Turnpike leases property and air rights to others. During 1995 and 1994, the Authority earned $6,949,372 and $4,151,804, respectively, in rental income. Rental income for the next five years is expected to approximate $4 million per year based on leases currently in effect.

8 Construction Contracts

In 1993, the Massachusetts Turnpike initiated a $500,000,000 five-year reconstruction and improvement program. In connection with this program, the Massachusetts Turnpike has entered into construction contracts with various construction and engineering companies. Construction contracts outstanding at December 31, 1995, approximated $85.7 million.

Projected construction expenditures for 1996 approximate $133 million.

9 Contingent Liabilities

The Authority from time to time is engaged in various matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. Others include disputes with contractors, subcontractors, and others arising from the construction or maintenance of the turnpike. The Authority does not expect that these matters will require any amounts to be paid which in the aggregate would materially affect the financial statements.

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters.

The Authority has obtained health coverage for most employees through various commercial health maintenance organizations. The health coverage for certain other employees as well as coverage for job-related injuries to all employees is self-insured by the Authority, with the risks managed internally. During 1995 the Massachusetts Turnpike incurred costs of $1,273,433 for health claims and $2,946,492 for job-related injuries under these self-insurance programs.

The Authority has obtained insurance coverage from various commercial insurers for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Sumner–Callahan–Williams Tunnels—Statements of Condition
December 31, 1995 and 1994

	1995	1994
Assets		
Cash (Note 5)	$ 2,590,083	$ 1,394,735
Investments (Note 5)	21,536,310	29,745,142
Accounts Receivable	223,998	153,611
Deposits, Prepaid and Deferred Expenses	31,003	34,255
Accrued Interest on Investments	5,892	21,698
Due from Massachusetts Turnpike, Net	—	99,569
Cost of Tunnels to Date (Note 3)	201,506,896	95,625,545
Total Assets	$ 225,894,182	$ 127,074,555
Liabilities and Fund Balances		
Liabilities		
Accounts Payable	$ 832,811	$ 1,356,023
Accrued Expenses and Payroll	952,050	814,112
Due to Massachusetts Turnpike, Net	513,627	—
Deposits and Deferred Income	91,399	93,569
Contract Retainage	302,532	1,031,198
Loan Payable (Note 6)	44,900,000	45,400,000
Tunnel Acquisition Cost Payable (Note 3)	100,000,000	—
Total Liabilities	147,592,419	48,694,902
Fund Balances		
Fund Balances Required to be Carried Forward for Operations per Trust Agreement	21,801,763	22,379,653
Loan Paid (Note 6)	2,100,000	1,600,000
Revenue Bonds Retired	54,400,000	54,400,000
Total Fund Balances	78,301,763	78,379,653
Total Liabilities and Fund Balances	$ 225,894,182	$ 127,074,555

See accompanying notes.

Sumner–Callahan–Williams Tunnels—Statements of Revenues, Expenses, Required Distribution and Change in Revenue Fund
For the Years Ended December 31, 1995 and 1994

	1995	1994
Revenues (Note 4)		
Net Toll Revenue	$ 16,965,545	$ 16,236,669
Rental Income	189,137	187,546
Other Income		
Restricted Funds and Accounts	1,280,905	971,727
Revenue Funds	63,058	39,721
Total Revenues	18,498,645	17,435,663
Expenses (Note 4)		
Operations and Public Protection	7,187,552	7,233,562
Administrative	1,757,192	1,380,424
Retirement	607,191	493,182
Total Expenses	9,551,935	9,107,168
Net Revenues Before Required Distribution	8,946,710	8,328,495
Restricted Revenues	(1,470,042)	(1,159,273)
Net Revenues Available for Distribution	7,476,668	7,169,222
Required Distribution (Transfers to Restricted Funds and Accounts) (Note 4)		
Debt Service Fund	4,495,968	4,488,974
Repair and Reconstruction Fund Mandated per Trust Agreement	1,797,500	1,259,708
General Funds Account	1,489,333	1,030,452
Insurance Account	400,000	175,000
Total Distribution	8,182,801	6,954,134
Net Change in Revenue Funds Retained for Tunnel Operating Purposes	$ (706,133)	$ 215,088

See accompanying notes.

Sumner–Callahan–Williams Tunnels—Statement of Changes in Fund Balances
For the Year Ended December 31, 1995

	Revenue Fund—Revenue Funds Retained for General Operating Purposes	Revenue Fund—Operating Reserve, Insurance, and General Funds Accounts	Debt Service Funds	Repair and Reconstruction Fund	Ted Williams Tunnel Transition Fund
Net Revenues Before Required Distribution	$ 7,476,668	$ 803,268	$ 375,160	$ 273,253	$ 18,363
Required Distribution	(8,182,801)	1,889,333	4,495,968	1,797,500	—
Transfers	—	(2,000,000)	(90,045)	—	2,000,000
Totals	(706,133)	692,601	4,781,083	2,070,753	2,018,363
Disbursements					
General Costs	—	—	—	—	—
Insurance Account	—	431,328	—	—	—
Maintenance, Repair, Resurfacing, Replacement, Reconstruction, and Related Costs	—	—	—	3,037,940	—
Repayment of Loan Principal	—	—	500,000	—	—
Payment of Loan Interest	—	—	4,086,000	—	—
Transition Costs	—	—	—	—	1,379,289
Totals	—	431,328	4,586,000	3,037,940	1,379,289
Net Change for Year	(706,133)	261,273	195,083	(967,187)	639,074
Balances					
Beginning of Year	2,993,261	9,063,033	6,028,326	4,295,033	—
End of Year	$ 2,287,128	$ 9,324,306	$ 6,223,409	$ 3,327,846	$ 639,074

See accompanying notes

Sumner–Callahan Tunnels—Statement of Changes in Fund Balances
For the Year Ended December 31, 1994

	Revenue Fund—Revenue Funds Retained for General Operating Purposes	Revenue Fund—Operating Reserve, Insurance, and General Funds Accounts	Debt Service Funds	Repair and Reconstruction Fund
Net Revenues Before Required Distribution	$ 7,169,222	$ 627,089	$ 355,215	$ 176,969
Required Distribution	(6,954,134)	1,205,452	4,488,974	1,259,708
Transfers	—	—	(773,179)	—
Totals	215,088	1,832,541	4,071,010	1,436,677
Disbursements				
General Costs	—	(200,000)	—	—
Insurance Account	—	397,240	—	—
Maintenance, Repair, Resurfacing, Replacement, Reconstruction, and Related Costs	—	—	—	538,093
Repayment of Loan Principal	—	—	400,000	—
Payment of Loan Interest	—	—	4,122,000	—
Totals	—	197,240	4,522,000	538,093
Net Change for Year	215,088	1,635,301	(450,990)	898,584
Balances				
Beginning of Year	2,778,173	7,427,732	6,479,316	3,396,449
End of Year	$ 2,993,261	$ 9,063,033	$ 6,028,326	$ 4,295,033

See accompanying notes.

1 General

The Authority operates two separate and financially distinct facilities: the Massachusetts Turnpike and the Sumner–Callahan–Williams Tunnels. The acquisition, construction, and reconstruction of the Sumner–Callahan–Williams Tunnels and related facilities were financed by revenue bonds. As of December 31, 1995, neither the faith and credit nor the taxing power of the Commonwealth of Massachusetts or any political subdivision thereof is pledged to the payment of the Authority's debt. The Authority does not receive any federal or state funding. Principal and interest payments on tunnel bonds and the funds providing for the maintenance, operation, and policing of the Sumner–Callahan–Williams Tunnels are derived solely from tunnel tolls and other revenues.

2 The Enabling Acts

By Chapter 354 of the Acts of 1952 of the Commonwealth of Massachusetts, the Massachusetts Turnpike Authority was duly created as a body politic and corporate and a public instrumentality of the Commonwealth and was authorized and empowered to construct, maintain, repair, and operate a toll express highway, known as the Massachusetts Turnpike. Chapter 598 of the Acts of 1958 authorized and empowered the Massachusetts Turnpike Authority to acquire, from the city of Boston, the Sumner Tunnel and to construct an additional vehicular tunnel between Boston proper and East Boston (known as the Callahan Tunnel), and to operate and maintain both facilities. The Authority is directed by a Board of three members who are appointed by the Governor of the Commonwealth of Massachusetts. The Commonwealth's accountability for the Authority does not extend beyond making these appointments.

3 Ted Williams Tunnel

Chapter 102, as amended by Chapter 273, of the Acts of 1995, authorized the transfer of ownership of the Ted Williams Tunnel from the Commonwealth to the Authority. The 1995 Acts also authorized the Authority to issue up to $300,000,000 of notes to finance an initial $100,000,000 payment to the Commonwealth for the acquisition of the Ted Williams Tunnel and other purposes outlined below. The transfer of the Ted Williams Tunnel was effective December 15, 1995, when it opened for commercial traffic, and its operations have been included in the accompanying financial statements since December 15, 1995. Revenues relating to the Ted Williams Tunnel for the period from December 15, 1995, to December 31, 1995, were approximately $129,000. The $100,000,000 acquisition cost has been included in the cost of tunnels to date in the accompanying financial statements.

On January 15, 1996, the Authority issued $259,315,000 Guaranteed Bond Anticipation Notes to finance the $100,000,000 payment for the acquisition of the Ted Williams Tunnel, as well as to advance refund the outstanding Massachusetts Industrial Finance Agency (MIFA) Tunnel Revenue Bonds (see Note 6), to finance a portion of the cost of certain repairs and improvements to the Sumner and Callahan Tunnels and to fund certain start-up costs associated with opening and operating the Ted Williams Tunnel. The Notes are unconditionally guaranteed by the Commonwealth. The Notes mature on June 1, 1999, and are anticipated to be repaid by the Authority with the proceeds from bonds secured by the revenues of the Sumner–Callahan–Williams Tunnels to be issued in the future.

4 Summary of Significant Accounting Policies

(a) Basis of Accounting

All accounts and records of the Authority are maintained in accordance with accounting practices consistent with the provisions of the Loan and Trust Agreement dated October 1, 1990. Consequently, the Authority's accounting practices differ in certain respects from generally accepted accounting principles. The monetary effects of such differences are not readily determinable. The most significant difference is that, consistent with the terms of the Trust Agreement, the Authority does not depreciate the cost of the Sumner–Callahan–Williams Tunnels. Also, the Authority does not present a statement of cash flows. The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The accompanying statement of condition reflects combined totals of individual funds but does not eliminate interfund balances. Resources are allocated to and accounted for in the individual funds based upon the provisions of the Loan and Trust Agreement. Revenues and expenses are generally accounted for on an accrual basis, except for retiree health costs, which are accounted for on a pay-as-you-go basis, and interest on bonds, which is accounted for on a cash basis. In 1994, the Authority began the practice of accruing its obligation for compensated absences as incurred and accruing an additional amount representing a portion of its unfunded obligation for compensated absences incurred in previous years (see Note 7).

(b) Fiscal Year

The Authority's fiscal year is the calendar year.

(c) Investments

Investments are stated at amortized cost which approximates market value. The cost of securities sold is based upon the specific identification method.

(d) Cost of Tunnels

The cost of the tunnels to date represents the accumulated expenditure of bond proceeds and related investment income for the acquisition, construction, and reconstruction of the tunnels and related legal, bond issue, and other expenses defined and authorized by the original 1954 Trust Agreement (defeased) and the Loan and Trust Agreement dated October 1, 1990, including the original issue discount on the bonds.

(e) Revenues

Cash tolls received by the Sumner–Callahan–Williams Tunnels are deposited with a depository bank. On a monthly basis, these monies are transferred to the Trustee and allocated among the various funds and accounts in accordance with the provisions of the Loan and Trust Agreement. All other revenues are deposited with the Trustee directly. All revenues deposited with the Trustee are continuously secured for the benefit of the Authority and bondholders by marketable securities deemed eligible as collateral.

(f) Expenses

The Loan and Trust Agreement provides that the Authority will on or before the first day of each fiscal year adopt an annual budget. The operating expense budgets totaled $10,289,000 and $10,310,000 in 1995 and 1994, respectively. Expenditures for equipment acquisitions and repairs and improvements to the tunnels and related facilities made from the Repair and Reconstruction Fund are not capitalized.

5 Cash and Investments

Cash and investments are restricted to the specific purposes cited by the Loan and Trust Agreement including tunnels administration, operations and public protection, payment of bond principal and interest, and costs

of tunnel repair and reconstruction projects.

The carrying amount of the Authority's cash deposits was $2,590,083 at December 31,1995, and $1,394,735 at December 31, 1994. The bank balance was $2,336,035 at December 31, 1995, and $1,160,502 at December 31, 1994. Reconciling items between the carrying amount and the bank balance consisted principally of outstanding checks which had not cleared at year-end and deposits in-transit. Of the bank balances at December 31, 1995 and 1994, $1,162,020 and $1,022,497, respectively, are covered by federal depository insurance or collateralized with securities held by the Authority or by its agent in the Authority's name, and bank balances uninsured and uncollateralized totaled $1,174,015 and $138,005, respectively.

The following summary categorizes investments held as of December 31:

	1995 Cost	*1994 Cost*
U.S. Treasury Securities	$ 11,536,096	$ 11,420,711
Repurchase Agreements	5,387,620	5,691,422
Money Market Accounts	4,512,594	12,533,009
Certificates of Deposit	100,000	100,000
Total Investments	$ 21,536,310	$ 29,745,142

Market value of investments approximates cost for each of the security categories listed.

U.S. Treasury Securities are held by the bond Trustee pursuant to the terms of the Trust Agreement. U.S. Treasury Securities are generally held to maturity and typically mature within two years. Repurchase agreements are collateralized with securities held by the pledging financial institution's trust department in the Authority's name. Money market funds are managed by Fidelity Investments and investments are made only in debt obligations issued or guaranteed as to principal and interest by the U.S. Government.

The following summarizes cash and investments as of December 31 by the various funds and accounts established and restricted under the Trust Agreement:

	1995	*1994*
Revenue Fund	$ 1,478,288	$ 1,390,906
Sinking Fund		
Debt Service Account	6,223,342	6,028,282
General Reserve Account	7,334,190	6,784,506
Repair and		
Reconstruction Fund	3,942,360	4,559,742
1990 MIFA Construction Fund	100,558	8,580,949
Insurance Fund	222,212	252,565
Current Expense Fund	888,483	588,915
Operating Reserve Fund	2,722,076	2,954,012
Ted Williams Tunnel		
Transition Fund	1,109,461	—
Revenue Fund	105,423	—
Totals	$ 24,126,393	$ 31,139,877

6 Loan Payable—MIFA

Pursuant to the Loan and Trust Agreement dated October 1, 1990, the Authority is obligated under a note payable to the Massachusetts Industrial Finance Agency (MIFA) for the loaned proceeds resulting from the sale of MIFA Tunnel Revenue Bonds–Massachusetts Turnpike Authority Issue, Series 1990–9 percent. The bonds are due October 1, 2020, however, they are scheduled for advanced refunding prior to their stated maturity (see Note 3). Principal sinking fund payments of $500,000 and $400,000 were made in 1995 and 1994, respectively.

The loan is collateralized by tunnel toll revenues and subject to various toll covenants established by the Loan and Trust Agreement that require the Authority to fix and place into effect schedules of tolls for the Sumner and Callahan Tunnels so that the (1) net revenues will at all times be at least 125 percent of the total principal and interest requirements for any succeeding fiscal year, and

(2) tunnel toll revenues along with other tunnel revenues available are sufficient to provide for the deposits mentioned in Note 4 (E).

7 Employee Benefit Plans

Defined Benefit Pension Plan

By the enactment of Chapter 597 of the Acts of 1967 and acceptance thereof by the Authority, the Massachusetts Turnpike Authority Employees' Retirement System (Retirement System) was created. The Retirement System is a funded defined benefit pension plan by which, effective July 1, 1968, substantially all employees of the Authority are entitled to retirement benefits in accordance with the provisions of the Massachusetts Contributory Retirement Law (Chapter 32 of the General Laws, Sections 1–28). The Retirement System covers the Massachusetts Turnpike and the Sumner–Callahan–Williams Tunnel employees. Approximately 70 percent of the Sumner–Callahan–Williams Tunnels' total payroll relates to employees covered by the Retirement System.

Employees with 10 or more years of service are entitled to annual pension benefits beginning at retirement age 55, and earlier retirement is allowed upon completion of 20 years of service. The benefit is based upon compensation levels, age, and years of service. If a member dies in service, the surviving spouse, dependent children, or other beneficiaries may be entitled to receive benefits. The covered employees are required to contribute 5 percent to 10 percent (dependent upon date of hire) of their salary to the Retirement System.

Pursuant to Section 22 (7)(e), as amended, the Authority is required to pay annually to the Massachusetts Turnpike Authority Employees' Retirement System, amounts determined by the Division of Public Employees' Retirement Administration (PERA) as necessary for payment of pension benefits to retired employees of the Authority and their beneficiaries and for the expenses of said system. Under the enactment of Chapter 566 of the Acts of 1978, the Authority is required to fund and pay the Retirement System the sum of (a) the normal pension cost for the current year and (b) an amount sufficient to amortize any unfunded past service liability prior to the dissolution of the Authority.

During 1995 and 1994, the Sumner–Callahan–Williams Tunnels paid $176,788 and $225,456, respectively, to the Retirement System for the Pension and Expense Funds. The Sumner–Callahan–Williams 1995 and 1994 contributions represented approximately 10 percent of total employer contributions. In addition, approximately $3.9 million in 1995 and $3.6 million in 1994 was contributed to the Retirement System by or on behalf of Authority employees.

Information concerning the Retirement System's pension benefit obligations and historical trends is presented in the Retirement System's December 31, 1995, financial report.

Retirees Group Medical Benefit

The Authority provides certain health care benefits for its retired employees. Currently, approximately 70 retirees or retiree spouses meet the eligibility requirements. The cost of retiree health care benefits is recognized as an expense when paid. The expense recognized in 1995 and 1994 was $129,414 and $140,000, respectively. As of January 1, 1995, the Authority's actuarial advisor estimated the present value of the cost of the unfunded retiree health benefits program to be $2,935,000 for the Sumner–Callahan–Williams Tunnels. The Authority has adopted a funding plan to provide for the amortization of the unfunded retiree benefits.

Deferred Compensation Plan

In 1981, the Authority adopted the Massachusetts Turnpike Authority Deferred Compensation Plan (Plan)

whereby an employee who elects to participate may defer the receipt of a specified amount of compensation. Such deferred compensation is payable to the participant on retirement, death, disability, or financial hardship. The Authority maintains agreements, principally with Aetna Life Insurance and Annuity Company, for certain administrative functions of the Plan. For accounting purposes, the Plan's assets and liabilities are recorded on the books and records of the Massachusetts Turnpike at market value. As of December 31, 1995 and 1994, the value of the Plan for the Massachusetts Turnpike and Sumner–Callahan–Williams Tunnels combined was $12,683,432 and $9,961,382, respectively. Plan assets are invested principally in various Aetna funds. All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income amounts are solely the property and rights of the Authority, subject only to the claims of the Authority's bondholders and other creditors. The Authority believes that it is unlikely that it will use the assets to satisfy the claims of creditors in the future.

Compensated Absences

Certain employees of the Authority can accumulate unused vacation and sick time which can be used at a later date or paid in cash upon termination and/or retirement from the Authority. Prior to 1994, the costs of these compensated absences was recorded on a cash basis. In 1994, the Authority began the practice of accruing its obligation for compensated absences as incurred and accruing a portion of its obligation for compensated absences incurred in previous years. The accrual for compensated absences increased from $55,000 as of December 31, 1994, to $311,000 as of December 31, 1995. The expense affiliated with this accrual is included in administrative expense in the accompanying financial statements. The Authority estimates the cost of the unrecorded obligation for compensated absences to be approximately $5 million at December 31, 1995.

8 Leases

The Authority has commitments under operating leases for administrative office space in a state office building and for other commercial office space. These leases expire on various dates through June 2000 and are generally expected to be renewed or replaced by similar leases. Lease expense charged to the Sumner–Callahan–Williams Tunnels in 1995 and 1994 was $71,589 and $71,616, respectively.

9 Construction Contracts

The Authority enters into construction contracts for the Sumner and Callahan Tunnels with various construction and engineering companies. Construction contracts outstanding at December 31, 1995, totaled $57,000.

10 Contingent Liabilities

The Authority from time to time is engaged in various matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. Others include disputes with contractors, subcontractors, and others arising from the construction or maintenance of the tunnels. The Authority does not expect that these matters will require any amounts to be paid which in the aggregate would materially affect the financial statements.

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. Certain risks are self-insured while others are covered by commercial insurance.

Massachusetts Turnpike Authority—Class Comparisons
January–December 1995 vs. January–December 1994

	Transactions 1995 (unaudited)	Transactions 1994 (unaudited)	Increase	Percent Change (%)	Gross Revenue 1995	Gross Revenue 1994	Increase	Percent Change (%)
Turnpike								
Passenger Vehicles	131,014,337	128,947,546	2,066,791	1.6	$ 104,378,985	$ 102,157,347	$ 2,221,638	2.2
Commercial Vehicles	9,972,160	9,628,895	343,265	3.5	33,584,311	32,421,054	1,163,257	3.6
Totals	140,986,497	138,576,441	2,410,056	1.7	$ 137,963,296	$ 134,578,401	$ 3,384,895	2.5
Tunnels								
Passenger Vehicles	16,398,461	15,905,162	493,299	3.1	$ 15,989,794	$ 15,526,232	$ 463,562	3.0
Commercial Vehicles	736,104	631,454	104,650	16.6	971,701	711,227	260,474	36.6
Totals	17,134,565	16,536,616	597,949	3.6	$ 16,961,495	$ 16,237,459	$ 724,036	4.5

See accompanying notes.

Members of the Board of Directors
Massachusetts Turnpike Authority
Boston, Massachusetts

We have audited the accompanying statements of condition of the two financially distinct facilities of the Massachusetts Turnpike Authority, consisting of the Massachusetts Turnpike and the Sumner–Callahan–Williams Tunnels, as of December 31, 1995 and 1994, and the related statements of revenues, expenses, required distribution, and change in revenue fund and changes in fund balances for the years then ended. These financial statements are the responsibility of the Massachusetts Turnpike Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 3 to the Massachusetts Turnpike financial statements and Note 4 to the Sumner–Callahan–Williams Tunnels financial statements, the Massachusetts Turnpike Authority presents its financial statements in conformity with accounting practices prescribed or permitted by the Trust Agreements relating to its outstanding indebtedness that vary in some respects from generally accepted accounting principles. The most significant difference relates to the fact that the Massachusetts Turnpike Authority does not depreciate the cost of the turnpike or the tunnels.

In our opinion, except for the effects of the matters described in the preceding paragraph, principally the effects of not depreciating the cost of the turnpike or the tunnels, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Turnpike and the Sumner–Callahan–Williams Tunnels at December 31, 1995 and 1994, and the results of their operations for the years then ended in conformity with generally accepted accounting principles.

Further, in our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Massachusetts Turnpike and the Sumner–Callahan–Williams Tunnels at December 31, 1995 and 1994, and their respective revenues, expenses, required distributions, and changes in revenue funds and the changes in their fund balances for the years then ended in conformity with accounting practices prescribed or permitted by the Trust Agreements.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary schedule of Massachusetts Turnpike Authority Class Comparisons, January–December 1995 vs. January–December 1994, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion relating to transaction volumes and labeled unaudited, has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is stated fairly in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

Boston, Massachusetts
February 16, 1996

Employees' Retirement System—
Statements of Net Assets Available for Benefits
December 31, 1995 and 1994

	1995	1994
Assets		
Investments, at Fair Value (Notes 2(b) and 5)		
U.S. Government Securities	$ 37,448,349	$ 36,709,942
Equities–Combined Investment Funds	29,843,922	12,373,592
Mortgage Certificates	20,629,504	19,333,502
Asset Backed Securities	5,464,061	12,239,270
Miscellaneous Notes and Bonds	7,260,715	8,735,317
Cash and Cash Equivalents	17,560,519	6,983,656
Total Investments	118,207,070	96,375,279
Accounts Receivable	122,312	2,715
Interest and Dividends Receivable	1,086,044	1,343,801
Principal Adjustment Account	13,437	33,340
Total Assets	119,428,863	97,755,135
Liabilities	(314,219)	(165,581)
Net Assets Available for Benefits	$ 119,114,644	$ 97,589,554

See accompanying notes.

Employees' Retirement System—
Statements of Changes in Net Assets Available for Benefits
For the Years Ended December 31, 1995 and 1994

	1995	1994
Investment Income (Loss)		
Net Appreciation (Depreciation) in Fair Value of Investments (Note 5)	$ 13,191,084	$ (6,645,668)
Net Investment Income	7,801,749	5,708,680
Total	20,992,833	(936,988)
Contributions (Note 3)		
Employee	3,766,085	3,479,153
Transfers from Other Systems	101,593	153,779
Total	3,867,678	3,632,932
Other Additions to Net Assets		
Expense Fund Appropriation	341,557	231,740
Section 3(8)(c) Reimbursements Received	259,415	244,520
Pension Fund Appropriation	1,943,774	1,969,643
Total	2,544,746	2,445,903
Total Additions	27,405,257	5,141,847
Deductions		
Benefits Paid–Pension Payments	4,430,308	4,246,757
Benefits Paid–Annuity Payments	682,975	629,515
Member Refunds	246,417	416,476
Administrative Expenses	402,346	313,892
Section 3(8)(c) Reimbursements Paid	56,038	51,892
Amortization–Principal Adjustment Account	19,903	29,056
Transfers to Other Systems	42,180	8,549
Total Deductions	5,880,167	5,696,137
Net Increase (Decrease) in Net Assets	21,525,090	(554,290)
Net Assets Available for Benefits		
Beginning of Year	97,589,554	98,143,844
End of Year	$ 119,114,644	$ 97,589,554

See accompanying notes.

1 Description of Plan

The following description of the Massachusetts Turnpike Authority Employees' Retirement Plan is provided for general information purposes only. Participants should refer to the Plan agreement for more detailed information.

(a) General

The Plan is a funded defined benefit pension plan. It is subject to the provisions of Chapter 32 of the Massachusetts General Laws. The Plan covers substantially all Massachusetts Turnpike Authority employees.

(b) Pension Benefits

Employees with 10 or more years of service are entitled to annual pension benefits beginning at retirement age 55, and earlier retirement is allowed upon completion of 20 years of service. The benefit is based on compensation levels, age, and years of service.

(c) Death and Disability Benefits

If a member in service dies, the surviving spouse and/or surviving dependent children may receive benefits, either lump sum or in the form of an annuity based on the length of service, contributions, age, and the cause of death. In the event there are no spouse and/or dependent children named, other beneficiaries may be entitled to a lump sum distribution.

2 Summary of Significant Accounting Policies and Plan Asset Matters

The following are the significant accounting policies followed by the Plan:

(a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with practices prescribed or permitted by the Commonwealth of Massachusetts Public Employees Retirement Administration (PERA). Contributions from the Massachusetts Turnpike Authority and the Authority's employees are recognized as revenue in the period in which employees provide services to the Authority. Investment income is recognized as earned by the pension plan. The net appreciation (depreciation) in the fair value of investments held by the pension plan is recorded as an increase (decrease) to investment income based on the valuation of investments as of the date of the Statement of Net Assets Available for Benefits.

(b) Valuation of Investments

The investment portfolio is regulated by the Massachusetts General Laws, Chapter 32, Section 23. The investments are presented in the financial statements at fair market value. At December 31, 1995 and 1994, the Plan was in compliance with the authorized limitations imposed on investments. Amortization is computed based on the straight-line method. Quoted market prices, supplied by the appropriate exchanges, are used to value the investments. The investments are managed by investment advisors.

(c) Actuarial Present Value of Accumulated Plan Benefits

Accumulated Plan Benefits are those future periodic payments that are attributable under the Plan's provisions to the services employees have rendered. Accumulated Plan Benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Benefits payable under all circumstances are included to the extent they are deemed attributable to employee service rendered to the valuation date.

The actuarial present value of Accumulated Plan

Benefits is determined by actuarial assumptions and is that amount which results from applying those assumptions to adjust the Accumulated Plan Benefits to reflect the time value of money and the probability of payment between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of January 1, 1995 and 1994, were (a) life expectancy of participants (the 1971 Group Annuity Mortality Table was used), (b) retirement age assumptions, (c) investment return rate (which was calculated at 8.5 percent per annum), and (d) inflation, which was figured at the rate of 4.5 percent per annum. Annual cost of living increases for pension payments (up to $9,000) following retirement are assumed to be 2 percent.

3 Funding Policy

As a condition of participation, employees are required to contribute 5 percent of their salary if hired prior to January 1, 1975, 7 percent if hired after that date and before January 1, 1984, and 8 percent if hired after January 1, 1984. Employees hired after January 1, 1979, contribute an additional 2 percent of earnings in excess of $30,000 per year. Overtime and extra pay are not subject to these assessments. The Massachusetts Turnpike Authority contributes to the Massachusetts Turnpike Authority Employees' Retirement System. The appropriations are made for the Plan's administrative expenses and to provide for the following years' retirement benefits which are made in accordance with the funding plan approved by the Commonwealth of Massachusetts Division of Public Employee Retirement Administration.

4 Plan Obligation

Chapter 32, Section 25 (4), of the Massachusetts General Laws states that the payment of all annuities, pensions, retirement allowances, and refunds of accumulated total deductions and of any other benefits granted under the provisions of Sections 1–28, inclusive, are obligations of the Massachusetts Turnpike Authority, the governmental entity in which the Plan is established.

5 Investments

The Plan's investments are maintained by a custodial service. The Vanguard Index 500 Trust Fund which is a combined investment fund constitutes 5.6 percent of the net assets available for benefits at December 31, 1994. This investment was liquidated on January 27, 1995, for proceeds of $5,715,169. The proceeds were used to provide funds for two new domestic equity investment managers. The following tables present the values of investments at December 31, 1995 and 1994.

Investments at December 31, 1995:

	Par Value	*Book Value*	*Fair Value*
U. S. Government Securities	$ 34,800,000	$ 35,192,725	$ 37,448,349
Equities—Combined Investment Funds	—	29,843,922	29,843,922
Mortgage Certificates	20,576,529	20,576,529	20,629,504
Asset Backed Securities	5,440,786	5,440,786	5,464,061
Miscellaneous Notes and Bonds	7,000,000	6,673,049	7,260,715
Cash and Cash Equivalents	—	17,560,519	17,560,519
Totals		$ 115,287,530	$ 118,207,070

Investments at December 31, 1994:

	Par Value	Book Value	Fair Value
U. S. Government Securities	$ 37,870,000	$ 37,731,575	$ 36,709,942
Equities—Combined Investment Funds	—	12,373,592	12,373,592
Mortgage Certificates	21,648,325	20,040,067	19,333,502
Asset Backed Securities	12,575,601	12,453,276	12,239,270
Miscellaneous Notes and Bonds	9,500,000	9,005,827	8,735,317
Cash and Cash Equivalents	—	6,983,656	6,983,656
Totals		$ 98,587,993	$ 96,375,279

During 1995 and 1994, the Plan's investments (including investments bought as well as held during the year) appreciated (depreciated) in value as follows:

	1995	1994
U. S. Government Securities	$ 3,277,257	$ (1,566,189)
Equities–Combined Investment Funds	6,693,992	(64,315)
Mortgage Certificates	759,541	(507,428)
Asset Backed Securities	237,281	(214,006)
Miscellaneous Notes and Bonds	858,175	(2,935,640)
Appreciation (Depreciation) in Fair Value	11,826,246	(5,287,578)
Net Realized Gain (Loss) on Investments Sold	1,364,838	(1,358,090)
Net Appreciation (Depreciation) in Fair Value	$ 13,191,084	$ (6,645,668)

Category One bank deposits and investments are fully insured or collateralized with securities held by the System's agent and in the System's name. There are no Category Two or Three credit risk deposits or investments. These categories of risk assessments are prescribed by Statement No. 3, paragraphs 67 and 68, of the Government Accounting Standards Board.

The Category One risk assessments at Book Value for the years ended December 31, 1995 and 1994 are as follows:

	1995	1994
U.S. Government Securities	$ 35,192,725	$ 37,731,575
Equities–Combined Investment Funds	29,843,922	12,373,592
Mortgage Certificates	20,576,529	20,040,067
Asset Backed Securities	5,440,786	12,453,276
Miscellaneous Notes and Bonds	6,673,049	9,005,827
Bank Deposits (NB)	17,615,299	7,016,075
Totals	$ 115,342,310	$ 98,620,412

NB: Bank deposits reflect balances in Depository Banks without adjustment for In-transit items and, therefore, do not equal book balances.

6 Accumulated Plan Benefits

Actuarial present value of Accumulated Plan Benefits as last determined by an independent actuary at January 1, 1995 and 1994, respectively, are as follows:

	1995	1994
Current Employees	$ 68,629,600	$ 62,273,801
Inactive Participants[1]	39,886,960	37,795,211
Total Pension Benefit Obligation	108,516,560	100,069,012
Market Value of Assets	97,589,554	98,143,844
Unfunded Pension Benefit Obligation	$ 10,927,006	$ 1,925,168

[1]Includes retirees, disabled individuals, beneficiaries currently receiving benefits and terminated employees not yet receiving benefits.

7 Early Retirement Incentive Program

The Massachusetts Turnpike Authority (the Authority) was "authorized to develop and implement an early retirement process for its employees" by provision of Section 312 of Chapter 110 of the Acts of 1993. The process was subsequently approved by the House and Senate Ways and Means Committees.

Eligible employees must have filed a Notice of Intent to apply for early retirement to the Massachusetts Turnpike Authority Employees' Retirement Board between August 1, 1995, and August 15, 1995. Retirements under the process shall be effective from March 15, 1996, through December 31, 1996.

Employees' Retirement System—
Required Supplementary Information
Revenues by Source and Expenses by Type (Unaudited)

Revenues by Source

Year	Employee Contributions	Employer Contributions	Percentage of Annual Payroll Covered	Investment Income	Totals
1989	$ 2,219,066	$ 3,120,487	16.4%	$ 5,721,440	$ 13,060,993
1990	2,514,650	4,300,494	13.8%	5,903,192	12,718,336
1991	2,870,687	2,084,498	5.0%	7,281,184	12,236,369
1992	3,200,821	2,084,886	4.7%	7,758,303	13,044,010
1993	3,283,168	2,657,990	6.2%	8,129,593	14,070,751
1994	3,632,932	2,201,383	4.8%	4,442,648	10,276,963
1995	3,867,678	2,285,331	4.7%	16,164,125	22,317,134

Expenses by Type

Year	Benefits Paid	Administrative Expenses	Refunds and Transfers	Investment Expenses	Totals
1989	$ 3,569,917	$ 130,170	$ 217,889	$ 40,913	$ 3,958,889
1990	3,768,890	274,629	206,035	78,266	4,327,820
1991	3,887,850	195,594	181,959	74,716	4,340,119
1992	4,151,720	245,633	250,135	109,599	4,757,087
1993	4,419,400	283,215	116,760	107,575	4,926,950
1994	4,683,644	313,892	412,981	197,472	5,607,989
1995	4,909,906	402,346	281,884	330,163	5,924,299

Employees' Retirement System—
Required Supplementary Information
Analysis of Funding Progress (Unaudited)

Fiscal Year	Net Assets Available for Benefits[1]	Pension Benefit Obligation	Percentage Funded	Unfunded (Overfunded) Pension Benefit Obligation	Annual Covered Payroll	Percentage of Covered Payroll
1989[2]	$ 64,022,705	$ 65,245,330	98.1%	$ 1,222,625	$ 31,129,294	3.9%
1990	71,332,449	69,420,529	102.8%	(1,911,920)	30,994,912	(6.2%)
1991	83,042,395	85,669,435	96.9%	2,627,040	41,128,256	6.4%
1992	90,249,950	93,699,796	96.5%	3,449,846	43,857,989	7.5%
1993	98,143,844	100,069,012	98.1%	1,925,168	42,838,770	4.5%
1994	97,589,554	108,516,560	89.9%	10,927,006	45,461,124	24.0%

[1]Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employee retirement system (PERS). Trends in assets in excess of pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the assets in excess of pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the larger this percentage, the stronger the PERS.

[2]Pension benefit obligation information for Plan years 1985 through 1988 and for the year 1995 are unavailable, and, accordingly, only the 1989 through 1994 information is presented here.

Report of Independent Auditors
Employees' Retirement System

February 8, 1996

Members of the Board
Massachusetts Turnpike Authority
Employees' Retirement System
Boston, Massachusetts

Re: Independent Auditor's Report

We have audited the accompanying statements of net assets available for benefits of the Massachusetts Turnpike Authority Employees' Retirement System as of December 31, 1995 and 1994, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2(a), these financial statements were prepared on a modified system of accounting based on the rules and regulations of the Massachusetts Division of Public Employees' Retirement Administration, which is a comprehensive basis of accounting other than generally accepted accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Massachusetts Turnpike Authority Employees' Retirement System as of December 31, 1995 and 1994, and the changes in net assets available for benefits for the years then ended, on the basis of accounting described in Note 2(a).

The schedules of required supplementary information (revenues by source and expenses by type and analysis of funding progress) presented on pages 54 and 55 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Di Pesa & Company

Di Pesa & Company

Certified Public Accountants

Credits

This annual report has been produced by the Massachusetts Turnpike Authority, Public Relations Department and Office of the General Counsel, with assistance from the following individuals:

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